

LEHMAN BROTHERS

# Partnership Account



SHARE IN PRIVATE EQUITY  
INVESTMENT OPPORTUNITIES



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HOW VALUABLE IS THE  
PARTNERSHIP ACCOUNT?

*Turn to the Example on page 17 to see  
how valuable the Partnership Account could  
be to you, based on various scenarios.*

## SHARE IN LEHMAN BROTHERS' INVESTMENT SUCCESS



*Lehman Brothers is pleased to provide you with this booklet outlining the details of the **Lehman Brothers Partnership Account Plan**. Through the Partnership Account, all employees can benefit from the Firm's experience and expertise in private equity investing.*

### ALL EMPLOYEES JOIN IN INVESTMENT OPPORTUNITIES

Lehman Brothers has a long and successful track record in private equity investments. Over the years, the Firm has provided senior-level employees with opportunities to invest along with outside investors in the merchant banking and venture capital funds. Investors in these funds have to meet income or net worth requirements set by the U.S. Securities and Exchange Commission.

With the introduction of the Partnership Account, the Firm is extending the opportunity to share in the success of these investments to employees up through the Vice President level — without requiring you to invest any of your own money. Lehman Brothers is establishing a portfolio of investments and will provide you with cash payments as if you were to invest directly in the portfolio yourself.

Extending this unique compensation program to all Lehman Brothers employees underscores the value the Firm places on all of our contributions, and reaffirms Lehman Brothers' commitment to being among the best places to work.

#### WHAT IS PRIVATE EQUITY INVESTING?

Unlike publicly traded stocks, which are listed on exchanges, such as the New York Stock Exchange or the London Stock Exchange, private equity investments are not available to the general investing public. Instead, they are offered only to institutional investors (such as Lehman Brothers) and to individual investors who have a high level of investing knowledge and experience.

Private equity portfolios might contain the following investment types:

- Start-ups, companies that are being formed to develop and market a business idea, and early and later-stage venture capital;
- Privately owned, or in certain cases publicly owned, companies with prospects for continuing growth;
- Leveraged and management buyouts, where a group of investors buys an established company financed principally with debt, by providing equity capital or other money that is designed to earn equity-like returns.

## THE PARTNERSHIP ACCOUNT CAN DELIVER SIGNIFICANT VALUE

In this booklet, you'll find out how valuable the Partnership Account can be as a result of these distinctive features:

- ♦ **When Lehman Brothers' Partnership Account portfolio investments succeed, you share in the success.** Lehman Brothers selects Partnership Account investments with the potential to generate high returns. You will receive payments based upon the returns on these investments.
- ♦ **There's no risk to you.** You don't contribute any of your own money, so you have nothing to lose.
- ♦ **The Firm supplies the capital and the expertise.** Any money invested in the Partnership Account portfolio comes from Lehman Brothers, and the Firm's experienced professionals identify investments and manage the portfolio.
- ♦ **After three years, your account is fully vested.** As long as you remain a Lehman Brothers employee for three years following the Partnership Account inception date, you are entitled to receive any payments made under the program.
- ♦ **The Firm plans to make ongoing Partnership Account offerings.** The first Partnership Account will make investments over

the next 18 months; the Firm then plans to establish new Partnership Accounts annually around the time bonuses are announced. This gives you an ongoing opportunity to participate in the Firm's investment success.

To many Lehman Brothers employees, portfolios like the one held by the Partnership Account are new and unfamiliar. It's important for every participant to clearly understand how the program works. For that reason, this booklet gives a plain English explanation of the program. For the legal provisions that govern the program, please see the enclosed Lehman Brothers Partnership Account Plan Document.

## NO ACTION OR CONTRIBUTIONS REQUIRED

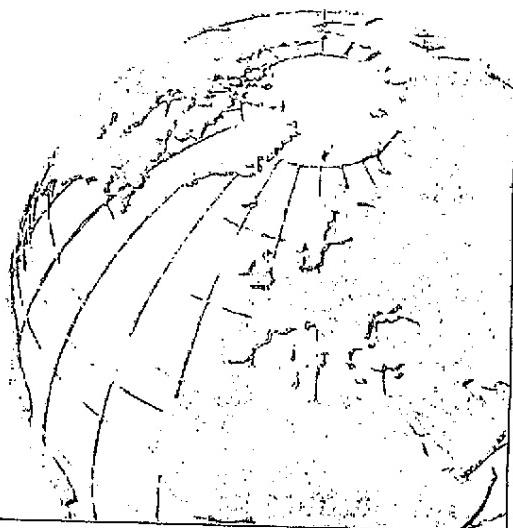
You don't need to enroll in the Partnership Account, contribute any money, or take any other action. If you are a full-time employee on active status with Lehman Brothers or a consolidated subsidiary, at a level up to and including Vice President, you take part in the program automatically. The enclosed Partnership Account Award Certificate verifies that you are a participant.

#### A WORD ABOUT INVESTMENT RISK

Lehman Brothers intends to invest the Partnership Account portfolio in highly speculative investments. There are no guarantees that the investments selected will be successful. And, of course, it's not possible to accurately predict how soon they might deliver investment returns.

Lehman Brothers has created the Partnership Account because the Firm believes it could give you substantial rewards over time. However, as you read this booklet, keep in mind that while the program has the potential to provide you with large payments, it's also possible that you might not receive payments at all, or that payments might be spread out over many years.

**You don't need to take any action to participate  
in the Partnership Account.**



PARTNERSHIP ACCOUNT

## INVESTMENTS CHOSEN FOR GROWTH POTENTIAL



*Through the Partnership Account, Lehman Brothers puts the Firm's extensive investment experience and analytical resources to work for you by investing primarily in private equity investments. These investments, while high risk, offer a unique opportunity for high investment returns.*

The Partnership Account is modeled on investments offered to sophisticated private investors and to the Firm's senior-level employees. The Firm has created several private equity funds for institutional and high-net-worth individual investors over the years and has a history of generating substantial returns. *However, past performance does not guarantee future results.*

### WHAT IS THE PARTNERSHIP ACCOUNT FOR SENIOR-LEVEL EMPLOYEES?

Lehman Brothers offers a different type of Partnership Account to the Firm's senior-level employees (those at the level of Vice President, or equivalent, and above) who meet income or net worth requirements set by the U.S. Securities and Exchange Commission. Though the two programs are different, they will share the same investment portfolio. This means that your payments from the Partnership Account are based on the performance of the same investments as the ones in the investment fund for the Firm's senior-level employees.

### SETTING ALLOCATIONS AND MAKING INVESTMENT DECISIONS

The Lehman Brothers Executive Committee has established a special committee, called the Partnership Account Allocation Committee, to set the overall investment strategy for the Partnership Account portfolio and to monitor its ongoing performance. The Partnership Account Allocation Committee is made up of senior Lehman Brothers employees and is chaired by Michael McKeever, Head of the Firm's Private Equity Division.

The Partnership Account Allocation Committee determines the amounts to be invested among broad investment categories. The categories include investments managed by Lehman Brothers and, in some cases, by managers not affiliated with the Firm.

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In each investment category, a manager and an investment team are responsible for identifying potential investments, conducting due diligence investigations, and making recommendations to the Private Equity Investment Committee (a committee separate from the Partnership Account Allocation Committee). The Private Equity Investment Committee is comprised of senior Lehman Brothers employees and is responsible for the oversight and approval of all private equity investments at Lehman Brothers.

See the chart on page 7 for a summary of the investment categories, describing the types of investments included in each category, its history at Lehman Brothers, and the individuals responsible for investments in each category.

Additionally, the Partnership Account portfolio may include investments in new Lehman Brothers funds targeting investments in different asset categories.

## PARTNERSHIP ACCOUNT INVESTMENT CATEGORIES

<i>Investment Category</i>	<i>Description</i>	<i>Management</i>
MERCHANT BANKING	<p>Private equity investments in established, well-managed companies in the United States and throughout the world.</p> <p>The oldest and most established area of principal investment activity at Lehman Brothers. Most recently, raised the \$2.0 billion Lehman Brothers Merchant Banking Partnership II in September 1997.</p>	Alan Washkowitz, Managing Director and Head of the Firm's Merchant Banking Group.
VENTURE CAPITAL	<p>Growth-oriented equity or equity-related investments in privately-held companies.</p> <p>Established in 1995. Formed the \$350 million Lehman Brothers Venture Partnership in April 1999 to invest in mid-to later-stage venture companies with limited operating histories and to provide growth capital to more mature operating companies.</p>	Michael Odrich, Managing Director and Head of the Venture Capital Group.
COMMUNICATIONS	<p>Private equity and equity-related investments in early-stage, growth-oriented companies in communications services and related industries, which are well positioned to capitalize on rapid changes in that field.</p> <p>Currently raising Lehman Brothers Communications Partnership, anticipated to have committed capital totaling approximately \$800 million.</p>	W. James Peet, Managing Director and Head of the Communications Fund.
REAL ESTATE	<p>Direct private equity investments in properties, real estate companies and service businesses ancillary to the real estate industry, primarily in North America, as well as in western and central Europe.</p> <p>Currently raising Lehman Brothers Real Estate Partnership, anticipated to have committed capital of \$1 billion and to close during the Partnership Account's award period.</p>	Raymond Mikulich and Mark Walsh, Managing Directors and co-Heads of the Real Estate Fund.
FIXED INCOME	<p>A portfolio of proprietary debt oriented investments with returns comparable to those generated by other private equity or equity related investments.</p> <p>These may include investments in high yield debt securities, high leverage bank loans, emerging markets debt, tax-exempt debt, distressed securities, mezzanine debt instruments and securitized debt instruments.</p>	Manager and investment team to be appointed to manage investments in this category, within the Private Equity Division.
FUND OF FUNDS	Direct investments in leveraged buyout, venture capital, and other investment funds managed by firms not affiliated with Lehman Brothers.	Manager and investment team to be appointed.
SPECIAL SITUATIONS	Any investment opportunities that meet the objectives of the Partnership Account and do not fit into the other asset categories.	As each opportunity arises, an investment project manager and an investment team will be appointed.

YOUR AWARD CERTIFICATE SHOWS  
YOUR STARTING POINT



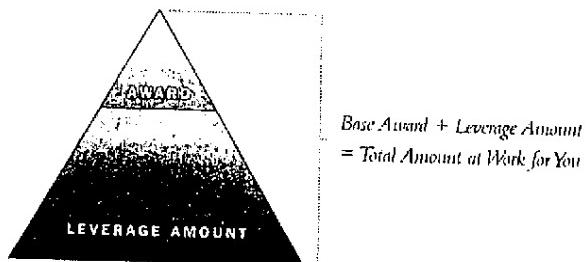
*The total amount shown on your personalized Partnership Account Award Certificate represents the investment amount at work for you. You will receive payments based on the investment performance of this total amount.*

The total amount shown on your Award Certificate is made up of two parts: your **base award** and the **leverage amount**. Before you begin participating in the Partnership Account, Lehman Brothers first sets the amount of your base award. Then the Firm adds leverage — essentially, an amount that represents borrowed capital — to increase the total amount that goes to work for you. The leverage amount provided for you is ten times the base award.

Please keep in mind that the total award amount is not literally your property. Rather, Lehman Brothers uses the total amount as a basis for determining the amount of payments you will receive.

**BASE AWARD AND LEVERAGE  
WORK TOGETHER**

The illustration below shows how your base award is added to the leverage amount to form the total amount Lehman Brothers puts to work for you.



For example, assume your total Partnership Account award is \$10,000. The \$10,000 is made up of one part base award and 10 parts leverage.

**EXAMPLE: PARTNERSHIP ACCOUNT  
STARTING POINT**

Base Award	\$909
Leverage Amount	\$9,091
Total Amount at Work	\$10,000
Leverage Ratio (leverage-to-base)	10-to-1

In addition to receiving payments from investment returns on the total award amount, you also receive payments equal to the base award — as long as the Partnership Account portfolio returns are sufficient and you meet the program's other requirements. However, the leverage amount is not paid out to you under any circumstances. Instead, it is "repaid" to the Firm.

#### LEVERAGE MEANS MORE POTENTIAL GROWTH

By adding the leverage amount, Lehman Brothers puts more money to work in the Partnership Account portfolio. It's similar to when investors borrow money (for example, through a margin account) that they then invest. This technique allows them to invest a larger amount and thus increase their potential gains. Although the Partnership Account leverage amount is "repaid" to Lehman Brothers with interest, if the investments perform well, the leverage amount can magnify the payments to you.

#### LOOKING FOR AN EVERYDAY EXAMPLE OF HOW LEVERAGE WORKS?

Using leverage to purchase an investment is like taking a bank loan to buy a house. When you buy a house, you make a down payment. The bank lends you the remaining money — this is your leverage.

Now, suppose you sell the house at a profit. You're required to pay back the loan amount, plus interest, to the bank. But the profit from the sale is yours to keep. That's how a small amount of money up front can produce returns that reflect a much larger investment.

*This example is intended only to give a simplified explanation of how leverage works. The Partnership Account offers advantages that a home mortgage does not — for example, you receive profits on portfolio assets without taking an ownership interest, and you are protected from personal loss.*

Lehman Brothers charges interest on the leverage amount it provides. For the Partnership Account 2000-2001, the interest rate charged is Lehman Brothers' long-term cost of funds. On June 15, 2000, this interest rate stood at 7.8%.

#### YOUR AWARD CERTIFICATE SHOWS THE AMOUNT AT WORK FOR YOU

Your personalized Partnership Account Award Certificate, enclosed in this package, shows the maximum amount Lehman Brothers can put to work for you in the Partnership Account, including your base award and the leverage amount. The amount on your Award Certificate depends on your level within the Firm.

**Turn to your personalized Award Certificate, included in this package, to find the amount at work for you in the Partnership Account.**

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## TIMELINE: INVESTING DURING THE AWARD PERIOD



*Lehman Brothers intends to invest the amount shown on your Award Certificate over the 18-month period from July 1, 2000 through December 31, 2001 — known as the award period.*



*July 1, 2000*

*December 31, 2001*

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Throughout the award period, the Partnership Account Allocation Committee determines the allocation of assets among the investment categories described on page 7.

Within the category allocations, Lehman Brothers investment management teams identify potential investments. The investments are then subject to review and approval by the Private Equity Investment Committee.

The goal of the investment management teams is to select an exceptionally attractive portfolio of investments for the full amount of your Partnership Account award during the award period. However, if the Partnership Account is not fully invested or committed by December 31, 2001, the Firm may

decide to extend the award period. If your award amount is not fully invested, the total amount at work for you could be smaller than the total amount shown on your Partnership Account Award Certificate. The payments you will receive from the Partnership Account will be based upon the amount actually invested.

If the award amount is fully invested before the end of the award period, the Firm may decide to launch the next Partnership Account before December 31, 2001.

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PARTNERSHIP ACCOUNT

## TIMELINE: WHEN YOUR ACCOUNT VESTS



*Your Partnership Account is 100% vested three years after the inception date (that is, on July 1, 2003), as long as you remain continuously employed by Lehman Brothers through that date.*



*July 1, 2000*

*July 1, 2003*

Once you're vested, you're entitled to receive payments under the program from that time forward, even if you later leave the Firm. You will then automatically receive Partnership Account payments when other participants do.

Under the Partnership Account, vesting means you have a right to receive the returns generated by the portfolio investments, but it does not mean you have a direct ownership interest in any of the underlying portfolio investments.

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### PURSUING AN ADVANCED DEGREE?

If you participate in the Partnership Account and leave before the vesting date to attend an approved degree program, special vesting provisions apply. The purpose of the special provisions is to ensure that employees who return to Lehman Brothers after receiving an MBA or other approved degree still benefit from participating in the Partnership Account.

Under these special provisions, your Partnership Account may vest after you receive your degree, return to Lehman Brothers, and are re-employed by the Firm for one full year. Your account will not vest earlier than the three-year anniversary of the inception date. For the provisions to take effect, you must:

- ♦ be an employee in good standing when you leave;

- ♦ leave the Firm to pursue an MBA or other degree approved by Lehman Brothers and successfully complete your degree program;
- ♦ receive a written offer of employment from Lehman Brothers;
- ♦ return to the Firm within four years of leaving and within one year after graduating;
- ♦ not have held a full-time job with a competing firm before returning; and
- ♦ be re-employed by the Firm for one full year.

If your future plans include returning to Lehman Brothers after attending school on a full-time basis, talk with your divisional Human Resources representative about the effect on your Partnership Account balance.

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Your account vests immediately if you're an active employee and one of the following events occurs after the inception date but before the vesting date:

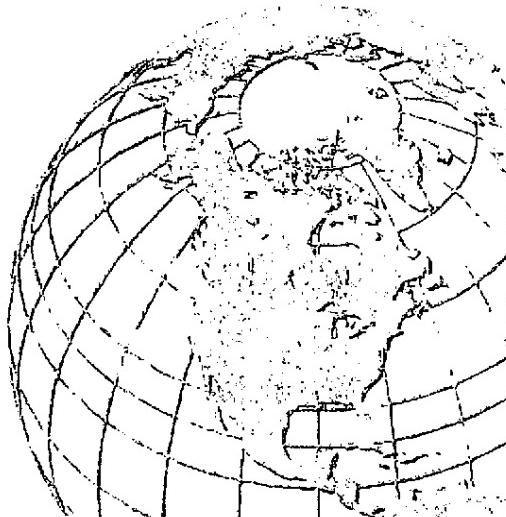
- ◊ you retire after meeting the conditions for retirement under the Firm's qualified defined benefit pension plan, and you do not go to work for a competitor before July 1, 2003;
- ◊ your employment ends as a result of a disability (as defined in the enclosed plan document) or in the event of your death.

***If you leave Lehman Brothers before  
you are vested, your Partnership  
Account is forfeited.***

If you've left the Firm to pursue an approved degree, and while doing so, you become disabled or die, you are not entitled to the special vesting provisions above, and your Partnership Account is forfeited.

Additionally, if you leave Lehman Brothers or are terminated for any reason before you are vested on July 1, 2003, you receive no payments under the program, and your Partnership Account is forfeited.

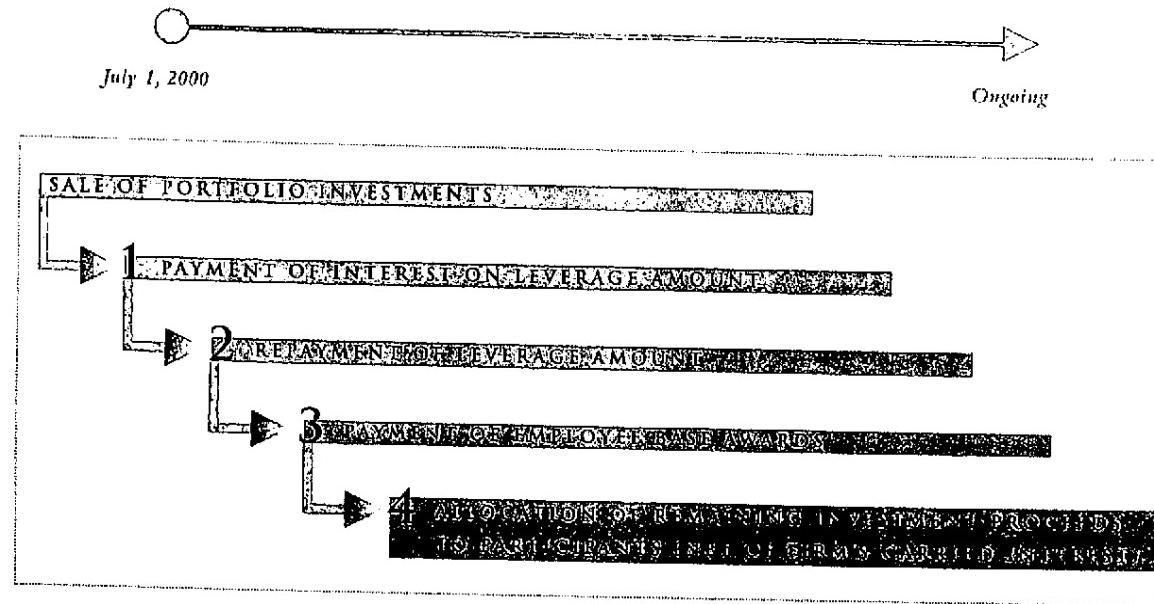
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## PARTNERSHIP ACCOUNT

TIMELINE: HOW YOUR PAYMENTS  
ARE DETERMINED

*As Partnership Account portfolio investments are sold, the payments you receive are determined as if the proceeds were allocated according to the following schedule.*



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A STEP-BY-STEP GUIDE TO  
ALLOCATING INVESTMENT  
PROCEEDS

The allocation schedule shown above is essentially for bookkeeping purposes only. No actual cash will change hands — except the payments made to you. The schedule shows only how Lehman Brothers determines the amount of your payments through the Partnership Account.

*Step 1:* Investment proceeds are first used to "pay" the interest costs on your leverage amount.

*Step 2:* Investment proceeds are next used to "repay" your full leverage amount. Repayments are made as investment proceeds are realized. This reduces your leverage amount as quickly as possible and lowers the interest costs on your leverage.

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**Step 3:** Investment proceeds are then credited to your Partnership Account, up to the amount of your base award. If investment proceeds are not sufficient, you might not receive payment of the full amount of the base award.

**Step 4:** Any remaining investment proceeds are allocated between your Partnership Account and Lehman Brothers.

♦ The Firm's share, called its *carried interest*, is calculated so that, in most cases, the Firm receives 10% of all *profits* generated by the Partnership Account portfolio. Profits include all gains on investments, before interest charged on the leverage amount. (The purpose of the carried interest is to reimburse the Firm for the cost incurred in managing the investment portfolio.) For certain investments, particularly in the Fund of Funds category, the Firm's carried interest may be less than 10%.

♦ Your Partnership Account is credited with the remaining investment profits — generally, this means 90% of all profits from investments after interest charged on the leverage amount.

Please keep in mind that Partnership Account investments are considered high-risk. If the investments perform poorly, you might not receive any payments from the program. However, under no circumstances will Lehman Brothers ask you to contribute money to your Partnership Account.

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#### WHY DOES THE FIRM RECEIVE CARRIED INTEREST?

Investment managers that identify and manage the assets in private equity funds typically receive a management fee, plus a portion of the profits generated on fund investments. The manager's portion is known as carried interest and generally totals between 20% and 25% of all investment profits. Lehman Brothers serves as investment manager for the Partnership Account portfolio — but the Firm has decided to waive the management fee and to limit its carried interest to just 10%. In the Fund of Funds category, the carried interest received by Lehman Brothers will be reduced.

#### REPAYMENT OF LEVERAGE IN FUTURE PARTNERSHIP ACCOUNTS

In future years, the program will contain a provision for *cross-collateralization*. Under this provision, any unpaid leverage that might be left in your account from a previous award period could be paid out of the current Partnership Account's investment proceeds. This might occur if the previous Partnership Account has not yet repaid all of its leverage amount out of its own investment proceeds. The cross-collateralization provision helps reduce the financial risk to Lehman Brothers, in exchange for the high level of leverage it extends to employees in the Partnership Account.

## TIMELINE: WHEN YOU RECEIVE PAYMENTS



*The Firm intends to keep Partnership Account portfolio investments at work for you until they reach their full value. Achieving maximum growth potential on these portfolio investments generally requires holding them for the long term. Then, as investments are liquidated, you receive cash payments.*



July 1, 2003



Ongoing

### IF INVESTMENTS ARE LIQUIDATED BEFORE THE VESTING DATE

You receive payments only after you become fully vested. However, some investments could be liquidated and proceeds could be realized by the Firm before the end of the vesting period (that is, before July 1, 2003). In that event the proceeds will continue to earn a return, but payments to you will be deferred until the vesting date.

### IF INVESTMENTS ARE LIQUIDATED AFTER THE VESTING DATE

Most likely, you will receive the full value of your Partnership Account gradually, following the three-year vesting date. That's because the private equity investments on which your payments will be based generally take additional time to mature. Therefore,

You receive Partnership Account statements to help you keep track of investment performance.

any payments you receive upon vesting may represent only a fraction of the total amount you may ultimately receive under the Partnership Account.

After July 1, 2003, Lehman Brothers anticipates combining investment proceeds into periodic payments that you will receive once each year.

### IF INVESTMENTS ARE LIQUIDATED AFTER YOU LEAVE LEHMAN BROTHERS

As long as you are fully vested, you receive ongoing payments automatically whenever they are made — even if you are no longer a Lehman Brothers employee.

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### STATEMENTS HELP YOU TRACK INVESTMENT PERFORMANCE

During the vesting period and beyond, Lehman Brothers will send you account statements, to help you keep track of the Partnership Account portfolio's investment performance. However, it might not always be possible to accurately state the value of certain portfolio investments. Many portfolio investments remain valued at cost until an event occurs that suggests a different valuation is appropriate.

### OPTION TO COMPLETE PAYMENTS AFTER FIVE YEARS

Five years from the start of the award period (that is, on July 1, 2005), Lehman Brothers can decide to make full payments under the Partnership Account based on the fair value of any remaining investments in the portfolio, as determined by the Firm. The Firm also can decide to pay an amount equal to the fair value of the portfolio on any future anniversary of this date. In essence, the Firm can make the payments that would be required if all investments were liquidated at their fair value. This option allows the Firm to close out the Partnership Account 2000-2001 after a period of five years.

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### TAX TREATMENT OF PAYMENTS

Payments you receive through the Partnership Account are considered taxable compensation income at the time you receive them. The payments are subject to ordinary income tax rates. Lehman Brothers will withhold tax from your payments as required by law in the United States and other countries.

If you are an employee in the United States, you are subject to FICA tax (that is, Social Security and Medicare taxes) at the time your Partnership Account vests — even if you do not receive a cash payment under the program at that time. To help you manage the tax withholding liability, Lehman Brothers plans to advance the tax payment money to the IRS on your behalf. The amount of the tax will then be withheld from your next bonus check or from other payments that may be due to you.

## E X A M P L E



*The Partnership Account provides payments to you based on the performance of portfolio investments. Look over the example on the next page to see how the Partnership Account can add to the other parts of your Lehman Brothers compensation.*

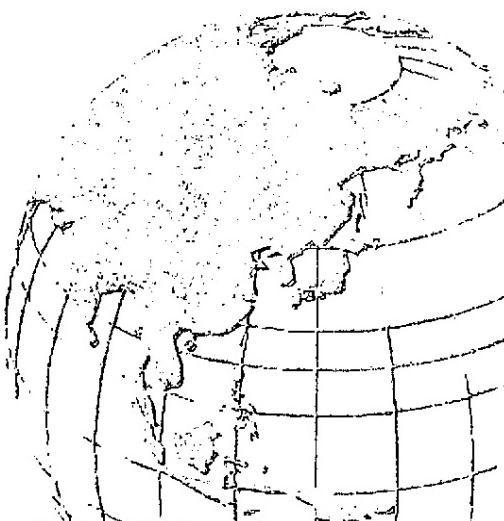
**WHAT DOES THE EXAMPLE SHOW?**

The following hypothetical example is intended to illustrate the possible payments that you could receive from participating in a single Partnership Account. Keep in mind that you do not receive the amount shown on your Award Certificate — your maximum payment equals your base award plus the applicable portion of returns from Partnership Account investments.

Naturally, if these assumptions and rates of return are different from actual results, your Partnership Account payments will be different from the dollar amounts shown.

The example uses the following assumptions:

- ◊ \$10,000 Award Certificate
- ◊ Full payment after four years
- ◊ 7.8% interest cost on leverage amount
- ◊ Before income taxes and FICA



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*Your Payments Vary Depending on Rate of Return*

		<i>Allocation Schedule</i>	<i>25% Rate of Return</i>	<i>40% Rate of Return</i>
JULY 1, 2000	Award period begins		\$909 base award + \$9,091 leverage amount	\$909 base award + \$9,091 leverage amount
			\$10,000 total	\$10,000 total
	Total investment proceeds <i>(\$10,000 invested, compounded annually)</i>		\$24,414	\$38,416
STEP 1	Interest cost on leverage amount <i>(7.8% x \$9,091, compounded annually)</i>		- \$3,186	- \$3,186
STEP 2	Leverage amount credited to Firm <i>(equals amount shown above)</i>		- \$9,091	- \$9,091
STEP 3	Base award credited to employee <i>(equals amount shown above)</i>		- \$909	- \$909
STEP 4	Allocation of profits			
	◊ Firm's share <i>(10% x (total investment proceeds - \$10,000))</i>		- \$1,441	- \$2,842
	◊ Employee's share <i>(Total investment proceeds - Steps 1 through 4)</i>		\$9,787	\$22,389
JULY 1, 2004	<b>Total employee cash payment <i>(Step 3 + Step 4)</i></b>		<b>\$10,696</b>	<b>\$23,298</b>

#### FOR YOUR REFERENCE

The Employee Partnership Account is a bonus plan; as such it is not subject in any way to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

The Employee Partnership Account may be amended, suspended, or terminated at any time.

In the event of any conflict between the plan documents (including, but not limited to, the Award Certificate and the Employee Partnership Account Plan Document) and the information in this booklet, the plan documents will govern.

Nothing in this booklet or the plan documents shall be construed to create or imply any contract of employment between you and Lehman Brothers or any affiliate, any right to continue to be employed by Lehman Brothers or any affiliate, or any right to be re-employed if your employment terminates.

The Partnership Account is **unfunded**, which means no assets are actually held in trust or dedicated to the Partnership Account. From the time you become entitled to receive payments through the Partnership Account, you do not have rights greater than those of a general, unsecured creditor of the Firm. All payments to you will be made by Lehman Brothers out of its general corporate funds, and you have no interest in any specific investments made by Lehman Brothers in connection with the Partnership Account.

Partnership Account payments are not considered eligible compensation under the Lehman Brothers Stock Award Program, any Lehman Brothers retirement plan, the Tax Deferred Savings Plan, or any of the Firm's medical, disability, life insurance, or other insurance plans.

You may want to consult your local tax authorities or personal tax consultant for details on the impact of tax laws in effect at the time your benefits become taxable.

If you have any questions about the Partnership Account in general or about your personalized Award Certificate, call the Compensation Department at 212-526-5126 (5-5126).

## LEHMAN BROTHERS

MICHAEL J. ODRICH  
MANAGING DIRECTOR  
HEAD OF PRIVATE EQUITY

June 17, 2008

Dear Partner,

We are pleased to update you on the current status of the Lehman Brothers Partnership Account, which is invested together and in parallel with related vehicles (together, the “Partnership Account” or the “Fund”). In June 2000, the Firm awarded opportunities to participate in the Fund with notional Firm-provided leverage to employees through the Vice President level. As of July 2003, you became fully vested and entitled to receive payments from the Fund to the extent they become available, regardless of your employment status with the Firm.

### **Partnership Account Performance and Overview**

As of December 31, 2007, the Fund invested \$458 million and has now committed all of its capital. The Fund has allocated its investments among the Lehman Brothers Private Equity asset classes in the following approximate ratios: 66% to Merchant Banking, Venture Capital, Real Estate and Fixed Income; 23% to Private Fund Investments; and 11% to the Fund of Hedge Funds.

**As of December 31, 2007, the gross IRR for the Partnership Account was 20%, which represents an implied multiple of notional equity of 7.6x.** Gross IRR represents the pre-tax, compounded annual internal rate of return based on estimated values of investments and gross cash flows into and out of investments.

In October 2007, a distribution of \$2,169 per unit was made to each investor, which represents 318% of the notional equity invested in the fund. We continue to monitor the cash balance in the fund and will apprise you prior to making additional distributions.

### ***Example of Partnership Account Returns***

The chart on the following page illustrates the Fund’s return mechanics valuing the investments as of December 31, 2007. This example assumes the award of \$10,000 from the Firm to an employee, of which \$7,500 (base award of \$682 and notional leverage of \$6,818) was actually invested. As of December 31, 2007, the value of the employee’s investment net of the distribution would be approximately \$3,045. The total value of the investment including the \$2,169 distribution represents a 7.6x multiple of invested capital. As this is only a hypothetical example, the actual amounts you receive may differ.

Valuation Analysis as of December 31, 2007		
<u>Per 10K investor</u>		
Base Award Amount Invested as of 12/31/07	\$	682
Leverage provided as of 12/31/07		<u>6,818</u>
Total Investment	\$	<u>7,500</u>
Value as of 12/31/07	\$	12,940
Less GP carry		(544)
Less Distribution		(2,169)
Less Int on Leverage		(364)
Less Leverage		<u>(6,818)</u>
Net Value @ 12/31/07	\$	<u>3,045</u>
Gross IRR		20%
Implied Multiple of Invested Capital		

*Note: as of 12/31/07, there is no remaining leverage outstanding.*

Past performance is not indicative of future results, and there can be no assurance that the Fund will continue to achieve comparable results to those set forth herein. Calculation methodology is explained further below, and this data is indicative of the performance of the Fund. The total value displayed on the above chart includes all distributions received and the current value of unrealized investments. The actual realized values of unrealized investments may differ materially from their current carrying values which are used for calculating total value. Actual values of currently unrealized investments cannot be determined until the occurrence of liquidity events and the repayment of all leverage and associated interest costs. Actual realized values of currently unrealized investments will depend on, among other factors, future operating results, market conditions at the time of disposition, legal and contractual restrictions on transfer that may limit liquidity, any related transaction costs and the timing and manner of sale, all of which may differ from the assumptions and circumstances on which the current unrealized values are based.

Below, we offer performance data by asset class as of December 31, 2007, for investments made thus far. Unrealized publicly-traded investments are valued based on closing market prices on December 31, 2007. The methodology of calculating unrealized privately-held investments differs among asset classes and is detailed below. Please refer to the investment update attached to this letter for more detail on investment allocations and performance by asset class.

***Merchant Banking***

The Partnership Account's only Merchant Banking investment was Consort Resources for \$9.2 million. Consort was realized on a gross basis at 117% of the invested amount following its acquisition by Caledonia Oil and Gas Limited in October 2003. The \$10.8 million of proceeds from this investment was used to repay interest and leverage.

***Venture Capital***

The Partnership Account invested a total of \$176 million in venture capital investments, which comprise several sector and geographical sub-categories. Unrealized venture capital investments are generally valued at cost; although several of the investments have been marked up or down to reflect market changes. As of December 31, 2007, the blended total value of all venture capital investments, including the distribution, was 116% of invested capital.

***Real Estate***

The Partnership Account is a significant investor in Lehman Brothers Real Estate Partners I, with a total of \$108 million invested in real estate as of December 31, 2007. To date, investments have been realized for \$301 million of value. Unrealized real estate investments are reflected at their fair values which are determined through discounted cash flow analyses. As of December 31, 2007, the total value of realized and unrealized real estate investments, including the distribution, was 279% of invested capital.

***Private Fund Investments***

The Partnership Account invested \$105 million in funds that are managed by top third party private equity fund managers. The Partnership Account has received \$137 million in proceeds from these investments. Private fund investments are reflected at net asset value of the underlying funds as reported in their most recent financial statements. As of December 31, 2007, the total value of assets in private funds, including the distribution, was 192% of invested capital.

***Fixed Income-Related***

The Partnership Account invested in the "equity" component of two CDOs for a total of \$9 million. Unrealized CDO investments are valued based on accrued and paid cash interest, sales proceeds and principal repayments assuming a terminal value determined by the market. As of December 31, 2007, the total value of fixed income investments, including the distribution, was 109% of the Fund's investment cost.

***Fund of Hedge Funds***

In December 2004, the Partnership Account realized its entire \$50 million investment in Lehman Brothers Fund of Hedge Funds for \$59 million, representing 117% of invested capital. The Fund of Hedge Funds was divided between a long/short fund and a diversified arbitrage fund.

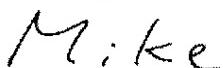
**Firm-Provided Notional Leverage**

When the Partnership Account was established, Lehman Brothers provided employees through the Vice President level with an award based on a base amount and notional 10x leverage. For example, an original Partnership Account award of \$10,000 consisted of a base component of \$909 and notional leverage of \$9,091. However, due to the available investment opportunities, the actual amount invested was \$7,500 per \$10,000 unit with a base of \$682 and notional leverage of \$6,818.

All currently outstanding Fund notional leverage and associated interest costs have been repaid. As Lehman Brothers awarded you the opportunity to participate in the Fund, all distributions you receive under the Fund, if any, will be treated as ordinary income to you for tax purposes.

We are pleased with the performance of the Fund to date. We will continue to manage this portfolio aggressively to maximize value and returns to our investors. We will keep you periodically updated on the Partnership Account. In the meantime, please do not hesitate to call Private Equity Investor Relations at (212) 526-9970 with questions regarding your investment.

Sincerely,



Michael J. Odrich  
Managing Director